

Message Text

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ACTION ARA-14

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FM AMEMBASSY BRASILIA
TO SECSTATE WASHDC IMMEDIATE 8804
INFO AMCONSUL RIO DE JANEIRO
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E.O. 11652: N/A
TAGS: BGEN, EGEN, BR
SUBJECT: SPEECH BY ASSISTANT SECRETARY KATZ BEFORE THE
BRAZILIAN-AMERICAN CHAMBER OF COMMERCE

REF: STATE 206780

1. IN RESPONSE TO REFTTEL, WE BELIEVE THAT SUBSTANTIVE PORTION OF ASSISTANT SECRETARY KATZ'S SPEECH TO CHAMBER SHOULD OPEN WITH DESCRIPTION OF THE EVOLUTION OF THE US-BRAZIL ECONOMIC RELATIONSHIP. THE UNITED STATES HAS LONG BEEN BRAZIL'S LARGEST SINGLE TRADING AND INVESTMENT PARTNER, AND SINCE 1969 THIS RELATIONSHIP HAS BECOME INCREASINGLY IMPORTANT TO BOTH THE US AND BRAZIL. THE VALUE OF US IMPORTS OF BRAZILIAN PRODUCTS GREW FROM \$610 MILLION IN 1969 TO \$2.1 BILLION IN 1977. BRAZILIAN IMPORTS OF US PRODUCTS HAVE ALSO INCREASED DRAMATICALLY, FROM \$613 MILLION IN 1969 TO NEARLY \$2.4 BILLION IN 1977. IN TERMS OF DIRECT PRIVATE INVESTMENT, WHICH HAS PLAYED A KEY ROLE IN BRAZILIAN DEVELOPMENT, THE TOTAL VALUE OF US INVESTMENT IN BRAZIL HAS INCREASED FROM \$815 MILLION
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IN 1969 TO \$3.4 BILLION 1977 (BRAZILIAN CENTRAL BANK FIGURES).

2. AT THE SAME TIME, TRADE AND INVESTMENT LINKS HAVE INCREASED THE IMPORTANCE OF THE US-BRAZIL ECONOMIC RELATIONSHIP, DIVERSIFICATION OF BRAZIL'S FOREIGN TRADE AND EXPANSION OF BRAZIL'S RECEIPT OF FOREIGN INVESTMENTS

FROM EUROPE AND JAPAN HAS PUT OUR RELATIONSHIP ON A MORE MATURE BASIS. THE US SHARE OF BRAZIL'S EXPORTS FELL FROM 26.4 PERCENT IN 1969 TO 17.6 PERCENT IN 1977 AND THE US SHARE OF BRAZILIAN IMPORTS FROM 30.8 PERCENT TO 19.6 PERCENT IN 1977. THE US SHARE OF THE TOTAL VALUE OF FOREIGN INVESTMENT IN BRAZIL DECLINED FROM ABOUT 38 PERCENT IN 1969 TO 30 PERCENT IN 1977. THIS DIVERSIFICATION OF ECONOMIC RELATIONS IS A NATURAL RESULT OF BRAZIL'S ECONOMIC GROWTH AND INCREASED ECONOMIC MATURITY AND HAS BEEN ACCOMPANIED BY A GROWING PARTICIPATION BY BRAZIL IN INTERNATIONAL FORUMS ADDRESSING GLOBAL ECONOMIC ISSUES. BRAZIL IS NOW THE WORLD'S TENTH LARGEST ECONOMY.

3. AFTER DESCRIBING SOME OF THE CHANGES IN THE US-BRAZIL RELATIONSHIP, THE IMPLICATIONS OF SOME OF THESE CHANGES SHOULD BE DISCUSSED. WE FEEL THE FOLLOWING POINTS SHOULD BE MADE:

(A) BRAZIL'S ECONOMIC GROWTH AND GREATER PARTICIPATION IN WORLD TRADE (OVER THE PAST 10 YEARS TOTAL BRAZILIAN FOREIGN TRADE INCREASED FROM \$3.7 BILLION TO OVER \$24.0 BILLION) HAS INCREASED BRAZIL'S IMPACT ON THE MARKETS OF ITS TRADING PARTNERS, AND, OF COURSE, THE TRADE POLICY OF THE INDUSTRIALIZED NATIONS HAS AN IMPORTANT IMPACT ON BRAZIL. BRAZIL NOW RANKS SECOND ONLY TO THE US AS AN EXPORTER OF AGRICULTURAL PRODUCTS. THE LIMITED OFFICIAL USE

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INCREASED INFLUENCE OF BRAZILIAN WORLD COMPETITIVENESS IS PARTICULARLY FELT IN THE MANUFACTURING SECTOR. MANUFACTURING EXPORTS HAVE BEEN ONE OF THE MOST RAPIDLY GROWING PORTIONS OF BRAZILIAN EXPORTS (MANUFACTURED EXPORTS HAVE MORE THAN TRIPLED OVER THE PAST FIVE YEARS) AND THE US SHARE OF BRAZILIAN EXPORTS IN MANY OF THESE MANUFACTURING SECTORS HAVE INCREASED SUBSTANTIALLY OVER THIS PERIOD. (FOR EXAMPLE, THE US SHARE OF BRAZILIAN MACHINERY AND ELECTRICAL EQUIPMENT EXPORTS INCREASED FROM 9.9 PERCENT IN 1971 TO 24 PERCENT IN 1976 AND TEXTILES FROM 9.0 PERCENT TO 14.1 PERCENT.)

(B) THE INCREASED TRADE VOLUME AND TRANSACTIONS NOT ONLY PROVIDE NEW OPPORTUNITIES AND MARKETS BUT ALSO PROVIDE MORE POSSIBILITIES OF DIFFERENCES BETWEEN BRAZIL AND ITS TRADE PARTNERS. ALTHOUGH AREAS OF DIFFERENCE ARE SOMETIMES SHARP, OUR ECONOMIC RELATIONSHIP HAD PROVEN TO BE TOO IMPORTANT AND TOO LONGSTANDING TO BE ADVERSELY AFFECTED BY DISAGREEMENT OVER SPECIFIC ISSUES.

(C) BRAZIL HAS BECOME A PRINCIPAL ACTOR IN MANY INTERNATIONAL ECONOMIC FORUMS. IT HAS PLAYED A LEADING

ROLE IN DISCUSSIONS ON GATT REFORM, SCIENCE AND TECHNOLOGY TRANSFER, COMMODITY AGREEMENTS, AND LAW OF THE SEAS. THE INTENSIFICATION OF INTERDEPENDENCE, AND THEREFORE THE NEED FOR INTERNATIONAL ECONOMIC COOPERATION, AND THE GROWING ROLE OF BRAZIL IN DISCUSSION OF WORLD ECONOMIC PROBLEMS REQUIRES CLOSE COOPERATION AND CONSULTATION BETWEEN THE US AND BRAZIL ON A WIDE VARIETY OF TOPICS.

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(D) FOR INDUSTRIALIZING COUNTRIES LIKE BRAZIL, DIRECT GOVERNMENT-TO-GOVERNMENT ASSISTANCE PROGRAMS ARE NO LONGER NEEDED TO HELP PROVIDE THE BASIS FOR DEVELOPMENT. IN THESE COUNTRIES, THE TRANSFER OF RESOURCES IS MORE APPROPRIATELY ACCOMPLISHED IN THE PUBLIC SECTOR BY INTERNATIONAL FINANCIAL INSTITUTIONS AND IN THE PRIVATE SECTOR THROUGH THE DYNAMICS OF INTERNATIONAL BUSINESS. IN FACT, BRAZIL IS ALREADY MAKING THE TRANSITION FROM A RECIPIENT OF FOREIGN AID TO A DONOR NATION, THROUGH ITS PARTICIPATION IN THE IDB AND ITS AGREEMENT TO JOIN AND CONTRIBUTE TO THE AFRICAN DEVELOPMENT FUND.

4. FINALLY, WE WOULD SUGGEST DISCUSSION ON HOW US AND BRAZIL ARE ADJUSTING TO THE IMPLICATIONS OF BRAZILIAN GROWTH AND NEW CONDITIONS IN INTERNATIONAL ECONOMIC RELATIONS. UNDER THE MEMORANDUM OF UNDERSTANDING

OF FEBRUARY 21, 1976 THE US AND BRAZIL HOLD CLOSE CONSULTATIONS ON MATTERS OF COMMON INTEREST. IN THE ECONOMIC SPHERE, SUB-GROUPS ON TRADE, AGRICULTURE, LIMITED OFFICIAL USE

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ENERGY COOPERATION, SCIENCE AND TECHNOLOGY HAVE BEEN HELD ON A REGULAR BASIS AND THE FIRST MEETING ON THE SUB-GROUP ON AGRICULTURE WILL TAKE PLACE IN BRASILIA SEPTEMBER 20-21.

5. ON COMMODITY QUESTIONS WE WOULD NOT PRESUME TO MAKE SPECIFIC SUGGESTIONS. WE BELIEVE THE GROUP WOULD APPRECIATE AN UPDATE ON US CONGRESS CONSIDERATION OF SUGAR QUESTIONS PLUS WHATEVER MAY BE APPROPRIATE TO SAY ABOUT COFFEE ON THE EVE OF THE LONDON MEETING. (NOTE: DESPITE USDA ANNOUNCEMENT OF NEW CROP ESTIMATE FOR BRAZIL, THE EMBASSY DOES NOT YET HAVE SUFFICIENT INFORMATION TO MAKE A JUDGMENT ON THE EXTENT OF DAMAGE DUE TO RECENT FREEZING WEATHER IN COFFEE PRODUCTION AREAS - SEE BRASILIA 6622.

6. BRAZILIAN OFFICIALS FROM THE TREASURY AND EXTERNAL RELATIONS MINISTRIES WERE IN WASHINGTON FROM AUGUST 21-25 TO DISCUSS COUNTERVAILING DUTY QUESTIONS. WE DO NOT HAVE AN OFFICIAL REPORT OF THESE CONVERSATIONS, BUT THE DEPARTMENT SHOULD BE ABLE TO ASCERTAIN WHETHER ANYTHING CAN OR SHOULD BE SAID ABOUT THESE TALKS OTHER THAN THAT THEY TOOK PLACE SO AS TO INDICATE CONTINUING DIALOGUE WITH BRAZIL ON TRADE QUESTIONS.

7. THE PARTICIPANTS MAY WELL ASK QUESTIONS ABOUT BRAZIL'S GROWING FOREIGN DEBT. WE THINK SUCH QUESTIONS ARE BEST DEALT WITH SUMMARILY AT THIS TIME BY INDICATING THAT WE ARE AWARE OF THE MAGNITUDES INVOLVED BUT THAT THE STRUCTURE OF THE DEBT IS IMPROVING, SINCE BRAZIL HAS BEEN OBTAINING LONGER MATURITIES AND LONGER GRACE PERIODS. THE RAPID RISE IN THE DEBT DURING THE FIRST HALF OF 1978 HAS BEEN DUE TO AN APPARENT BORROWING IN EXCESS OF IMMEDIATE NEEDS WITH A CONSEQUENT RISE IN LIMITED OFFICIAL USE

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RESERVES.

8. THERE ARE TWO OTHER POINTS WHICH CAN BE USED IN THE SPEECH OR FOR THE PURPOSE OF ANSWERING QUESTIONS. THE FIRST CONCERNS GSP AND THE SECOND DISCREPANCIES BETWEEN US AND BRAZILIAN FIGURES ON INVESTMENT.

A) IT MAY BE WORTH NOTING THAT BRAZIL'S EXPORTS TO THE US UNDER GSP INCREASED SIGNIFICANTLY FROM ABOUT \$215 MILLION IN 1976 TO \$344 MILLION IN 1977. A LARGE PERCENTAGE OF THE IMPLIED 60 PERCENT INCREASE WAS ACCOUNTED FOR BY MANUFACTURED GOODS, ESPECIALLY AUTOMOTIVE AND ELECTRICAL PARTS AND EQUIPMENT.

B) US DEPARTMENT OF COMMERCE DATA CONSISTENTLY HAVE STATED US INVESTMENT IN BRAZIL AS MUCH AS 80 PERCENT HIGHER THAN INDICATED BY THE OFFICIAL BRAZILIAN STATISTICS. THIS DIFFERENCE MAY BE ACCOUNTED FOR BY THE EXISTENCE OF PERHAPS UP TO \$2 BILLION IN LOANS FROM PARENT COMPANIES TO SUBSIDIARIES IN BRAZIL WHICH CAN BE CONSIDERED AS EFFECTIVE DIRECT INVESTMENTS SINCE THE LOANS ARE GENERALLY SUBJECT TO ROUTINE RENEWAL OR ROLLOVER. BRAZIL RANKS SEVENTH (BY US FIGURES) AMONG ALL COUNTRIES AS A HOST TO DIRECT INVESTMENT BY AMERICAN FIRMS.
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